DIVISION OF CONSUMER ADVOCACY
Department of Commerce and
Consumer Affairs
335 Merchant Street, Room 326
Honolulu, Hawaii 96813
Telephone: (808) 586-2800

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
HAWAIIAN ELECTRIC COMPANY, INC.	)	DOCKET NO. 2008-0083
	)	
	)	
Approval of Rate Increase and Revised Rate Schedules and Rules.	)	

DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO COMMISSION'S INFORMATION REQUESTS (PUC-IR-128, PUC-IR-167, AND PUC-IR-168)

Pursuant to Commission's letter dated October 5, 2009, the Division of Consumer Advocacy submits its **RESPONSES TO COMMISSION'S INFORMATION REQUESTS (PUC-IR-128, PUC-IR-167, AND PUC-IR-168)** in the above docketed matter.

DATED: Honolulu, Hawaii, October 19, 2009.

Respectfully submitted,

By Cath P. Awak
CATHERINE P. AWAKUNI
Executive Director

DIVISION OF CONSUMER ADVOCACY

DOCKET NO. 2008-0083

HAWAIIAN ELECTRIC COMPANY, INC.

DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO COMMISSION'S INFORMATION REQUESTS (PUC-IR-128, PUC-IR-167, AND PUC-IR-168)

Note: no attempt has been made to revise and correct redundant numbering.

PUC-IR-128 How, if at all, did the proposed Settlement Agreement's cash-working capital calculations consider the Power Purchase Adjustment Clause?

RESPONSE: Working Cash in the Settlement Agreement recognized and accounted for the timing of cash expenditures and recoveries for all purchased power costs, including amounts recovered through the Energy Cost Adjustment Clause ("ECAC") for energy costs and amounts to be recovered prospectively through the proposed Purchased Power Adjustment Clause ("PPAC"). For the test year, a single revenue lag is assigned to all revenues without regard to their tariff source. It is not necessary to segregate revenues by source (base rates, adjustment clauses, surcharges) because revenues are billed and collected by HECO on a single bill regardless of the applicable tariffs being applied and customers tend to remit payment for their entire bill, rather than separately for ECAC, PPAC and other bill elements.

In the event future application of individual adjustment clause tariffs creates a significant over or under-collected balance, any working cash effects may be considered by requiring or allowing the accrual of interest on the regulatory asset (or liability) deferral balance associated with that adjustment clause. For example, in the instance of the proposed Revenue Balancing Account ("RBA"), a six percent carrying charge is proposed that would account for carrying charges on the potentially large monthly decoupling balance arising from the difference between target and collected revenues. The proposed PPAC, in contrast, provides for quarterly reconciliation of actual costs to collections from customers with no provision for carrying charges. If in future rate cases, the PPAC has been approved and is observed to be creating potentially significant working cash effects due to persistently large over or under-recoveries, it may be necessary to reconsider the absence of carrying charges on the cost deferral balance associated with the PPAC. Cash flow timing issues arising from revenue adjustment mechanisms are best addressed within the mechanism, by the addition of carrying charges, because the amounts of over or under-recovered costs tend to vary significantly between periods, causing such amounts to be difficult to quantify as a fixed working cash value within a static rate case test period.

PUC-IR-167 Please provide a full and detailed narrative explanation of why all cost increases in the proposed Settlement Agreement were on a per-kWh basis rather than on a percentage basis for all revenues.

RESPONSE: The Settlement Agreement, at Exhibit 1, page 85, initially provided for the distribution of the overall interim rate increase on a fixed percentage among customer classes, with actual implementation of each rate class's interim revenue change on a per-kWh basis. This was done by agreement of the parties to simplify the application of the interim to customers' bills and to simplify any ultimate reconciliation of amounts collected pursuant to the interim in the event the final rate order approved a lower authorized revenue level than the interim increase, thus requiring refund calculations. Since interim rates are normally expected to be in place for a limited period of time, any implied intra-class imprecision in rate design arising from such simplification should be short-lived.

In its Interim Decision and Order dated July 2, 2009 in the instant proceeding, the Commission stated that it, "...is concerned that such an increase could inappropriately include fixed costs in the variable component of rates. The Parties may provide additional testimony explaining and supporting these elements of their proposed cost allocation and rate design."

By letter dated July 8, 2009, HECO responded to the Interim Decision and Order, providing revisions to reduce the calculated overall revenue increase in compliance with the Commission's rulings and also revised the per-kWh application of the interim rate increase. This latter change was explained in Exhibit 2A within HECO's submission on July 8 which stated in pertinent part:

> To address Commission concerns regarding an interim rate increase assigned to customer classes on a per-kWh basis, (Interim Decision and Order, dated July 2, 2009, pages 15-16), the Company proposes to implement the interim rate increase as percentage increases assigned to customer classes as has been done in the implementation of interim rate increases in the most recent rate cases: for HECO in Docket No. 04-0113, 2005 Test Year and Docket No. 2006-0386, 2007 Test Year; for HELCO in Docket No. 05-0315, 2006 Test Year; and for MECO in Docket No. 2006-0387, 2007 Test Year. The amount assigned to each rate schedule is divided by the 2009 Test Year estimate of base revenue to determine the interim increase percentage for each rate schedule. By implementing the interim increase as a percentage, the underlying rate design and recovery of costs through customer, energy, and demand charges based on the 2005 Test Year approved by the Commission remains unchanged. Changes to the rate design and to the recovery of costs through the rate schedule charges would be made only upon approval in Commission final decision and orders in the 2007 Test Year and 2009 Test Year rate cases.

This reversion to past practice will have the effect of maintaining the existing permanent rate structure through application of a percentage increase surcharge to total base revenues produced on the customers' bills under the existing rate structure. This approach leaves rate design changes to be addressed within the permanent rate order in this Docket.

The Settlement Agreement also sets forth specific recommendations regarding the permanent rate design changes in HECO T-22, Attachment 2 of the Settlement Agreement. These provisions were negotiated by the parties, recognizing that the methods used to calculate cost of service are subjective and are disputed and there is, therefore, no consensus cost of service results from which to design rates. Additionally, cost of service results are subject to interpretation and judgment in the design of specific rate elements; as explained in HECO T-22 at pages 22-46, in CA-T-5 at pages 32-49, and in DOD-300 at pages 22-23. HECO T-22, Attachment 2 provides references into these testimonies, indicating which party's "position" was adopted in the proposed rate. With these references, the Commission can review the subject testimony to understand the basis for the proposed rate levels within the proposed Settlement Agreement permanent rate design.

PUC-IR-168 Please describe all reasons why the rate increase resulting from this rate case should or should not be allocated to both the fixed and per-kWh components of rates.

RESPONSE: The rate increase from this rate case should be attributed, rather than "allocated," among the customer charge, demand charge and energy charge elements of HECO's tariffs so as to balance multiple objectives that are discussed in considerable detail within Direct and Supplemental testimonies on file in this Docket.

As noted in response to PUC-IR-167, the interim rate increase is applicable on a percentage surcharge basis so as to not change the existing rate structure, including the customer, demand and energy rate elements last changed in the Company's 2005 permanent rate order. The permanent rates approved in the instant Docket should be attributed to specific rate elements, as specified in the Settlement Agreement HECO T-22, Attachment 2 document, so as to reasonably balance the positions of the parties as set forth in the rate design testimony at HECO T-22 at pages 22-46, in CA-T-5 at pages 32-49, and in DOD-300 at pages 22-23. The process producing this settlement is described in detail in CA-ST-5.

HECO and the Consumer Advocate have considered two very different cost of service methodologies in this Docket, recognizing that there is an ongoing disagreement regarding how distribution network costs should be classified for cost allocation purposes. Beyond this dispute, which is not resolved in the

Settlement Agreement, HECO and the Consumer Advocate recognize that considerations other than rigid adherence to cost of service study results (under either treatment of distribution network costs) must also influence the recommended rate design. For example, HECO T-22 states at page 22, "HECO typically considers the following factors in developing the proposed rates:

1. production of the Company's test-year revenue requirements;
2. classes' cost of service;
3. revenue stability;
4. rate stability and rate continuity;
5. impact on customers;
6. customer choice;
7. provide fair and equitable rates;
8. simplicity, ease of understanding, and ease of implementation; and
9. encourage customer load management."

The need to weigh other considerations such as these was also explained and supported in CA-T-5 at pages 34-36 and in CA-ST-5 at pages 9-21. The rate design agreed upon by the parties, as set forth in the Settlement Agreement at HECO T-22, Attachment 2, reflects the weighting provided these other factors, as well as gradual movement toward indicated cost of service.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO COMMISSION'S INFORMATION REQUESTS (PUC-IR-128, PUC-IR-167, AND PUC-IR-168)** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

DARCY ENDO-OMOTO VICE PRESIDENT GOVERNMENT AND COMMUNITY AFFAIRS HAWAIIAN ELECTRIC COMPANY, INC. P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy by hand delivery
DEAN K. MATSUURA MANAGER- REGULATORY AFFAIRS HAWAIIAN ELECTRIC COMPANY, INC. P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy by hand delivery
THOMAS W. WILLIAMS, JR., ESQ. PETER Y. KIKUTA, ESQ. DAMON L. SCHMIDT, ESQ. GOODSILL, ANDERSON, QUINN & STIFEL 1800 Alii Place 1099 Alakea Street Honolulu, Hawaii 96813 Counsel for Hawaiian Electric Company, Inc.	1 copy by hand delivery
DR. KAY DAVOODI NAVFAC HQ ACQ-URASO 1322 Patterson Avenue, S.E. Suite 1000 Washington Navy Yard Washington, DC 20374-5065	1 copy by U.S. mail

JAMES N. MCCORMICK, ESQ. ASSOCIATE COUNSEL NAVAL FACILITIES ENGINEERING COMMAND, PACIFIC 258 Makalapa Drive, Suite 100 Pearl Harbor, HI 96860-3134	1 copy by U.S. mail
THEODORE E. VESTAL ASSOCIATE COUNSEL Naval Facilities Engineering Command, Pacific 258 Makalapa Drive, Suite 100 Pearl Harbor, HI 96860-3134	1 copy by U.S. mail

Counsels for Department of Defense

DATED: Honolulu, Hawaii, October 19, 2009.

Desiree Hood